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ZNR UUUUU ZZH
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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC PRIORITY 8572
INFO RUEHBUL/AMEMBASSY KABUL 9065
RUEHNE/AMEMBASSY NEW DELHI 3704
RUEHKP/AMCONSUL KARACHI 0242
RUEHLH/AMCONSUL LAHORE 5982
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RUEHIL/ODRP ISLAMABAD PK
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RHWSMRC/USCINCCENT MACDILL AFB FL

UNCLAS ISLAMABAD 002874

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [PK](#)

SUBJECT: ECONOMIC WOES FINALLY MAKING TOP HEADLINES IN
PAKISTANI PRESS

¶1. (SBU) Summary: For the first time, local newspapers are carrying prominent coverage of a possible impending economic crisis, with headlines touting warnings from visiting World Bank senior officials and excerpts from a Citibank report. Such press attention helps sensitize the public to the impending economic crisis and gives the GOP financial advisors some cover as they attempt to draw higher level GOP attention to the economic situation. End Summary.

¶2. (U) Front page coverage on the August 29 edition of the Business Recorder trumpets Citibank's stark warning of economic woes looming in the short term. Citibank's report, released on August 27, has advised Pakistan to secure help from the International Monetary Fund (IMF) to avoid default on its foreign debt repayments. The Citibank report noted an increasing likelihood of default due to mounting political instability, dwindling foreign exchange reserves, and the weakening Pakistani rupee. According to the Business Recorder report, Citibank noted that if Pakistan defaulted, it would have to reschedule all of its debt - some USD 2.6 billion in self-issued bonds and USD 13.9 billion in bilateral debt - and that such a rescheduling would undermine the country's ability to attract foreign investment, which is desperately needed to support a ballooning trade deficit. The Business Recorder also notes that the report speculates that the rupee's depreciation will continue, particularly given the lack of decisive governmental economic action and the recent break-up of the ruling coalition.

¶3. (U) Prominent economic coverage was also visible on the front page of The Dawn which reports that in August 28 meetings with Prime Minister (PM) Gilani and Finance Minister Qamar, World Bank and Asian Development Bank (ADB) delegations, led by World Bank Vice President for South Asia Isabel Guerrero, urged Pakistan to take stringent macroeconomic stabilization measures in order to qualify for quick loan disbursements. The PM and Finance Minister reportedly spoke of the political difficulties involved in instituting reforms quickly but stated their commitment to macroeconomic stabilization and outlined a number of economic policy reforms, including improving cost recovery for utilities, containing demand through appropriate monetary policy measures, and building a social safety net to assist the poor.

¶4. (U) The PM is said to have assured the ADB delegation, led by Director General Juan Miranda, that the GOP is

implementing a comprehensive macroeconomic stabilization program which will include difficult but necessary reform measures. Gilani reportedly agreed to involve development partners, both separately and collectively, in feedback and monitoring but emphasized the GOP would like "to have strong ownership of the macroeconomic stabilization package and structural reforms" and that there was "need for timely inflows of financial help for building up the reserve and meeting development requirements." The Dawn reports that Isabel Guerrero, World Bank Regional Vice-President for South Asia, assured the GOP that the World Bank strongly supports the new civilian Government, noted the program being considered by the World Bank for Pakistan is "substantive and diverse," and said the Bank would be open to considering possible augmentation of financing.

15. (SBU) Comment: Post notes that these press reports mark the first time that prominent coverage of an impending economic crisis and the possible need for an IMF program has appeared in leading newspapers. While more work needs to be done to sensitize the public about the possible approaching economic crisis, such press coverage in leading papers quoting international institutions helps provide support and cover for financial advisors who repeatedly sound warning bells and struggle to gain high-level GOP attention for economic issues. End Comment.

PATTERSON